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SUBJECT: GOP REVIVES THE IDEA OF REMITTANCE SECURITIZATION

Classified By: Ambassador Anne W. Patterson for reasons 1.4 (b) and (d)

¶1. (C) Summary: Finance Advisor Shaukat Tarin told the diplomatic community that he plans to raise over \$1 billion through the securitization of workers' remittances through UAE and Saudi banks. He will mention this plan at the Donors' meeting, emphasizing that these are commercial transactions which merely need facilitation from Saudi and Emirati regulatory authorities. A Ministry of Finance official confirmed that plans are underway to borrow a total of \$3 billion, but he believes that the GOP will be paying too high a price for funds that, in his view, are not urgently needed at this time. A similar scheme was proposed prior to the IMF program, but was rejected then as being too costly. End Summary.

¶2. (SBU) In a briefing to Islamabad-based Ambassadors on the GOP's presentation at the April 17 Donors/Friends' meetings, Finance Advisor Shaukat Tarin said that the GOP expects to receive at least \$1 billion in funds through the securitization of workers' remittances from Saudi Arabia and the United Arab Emirates. Under this plan, the GOP will borrow dollars from banks in Saudi Arabia and the UAE, and will repay the loans over five years with the funds that overseas Pakistanis place with these banks to be sent onward to Pakistan. As an additional layer of security, the GOP will provide its sovereign guarantee for these loans.
Background

¶3. (SBU) A significant portion of the GOP's hard currency inflows are in the form of workers' remittances, primarily from Pakistanis working in the Gulf. In the fiscal year ending June 2008, according to official figures, Pakistan received \$6.45 billion from remittances; of this, \$1.25 billion came from Saudi Arabia, and \$1.09 billion from the UAE. Although there have been reports that the global economic downturn is hitting the Gulf hard, post has not seen a huge influx of returnees to Pakistan as yet, and remittances have actually grown by 19 percent on an annual basis, as of end-February. However, this continued growth may not be a positive sign, as laid-off workers may be cashing out of houses and cars, and remitting their severance pay in advance of their eventual return to Pakistan.
How Does Remittance Securitization Work?

¶4. (SBU) Normally, remittances are paid into a foreign bank

by the overseas Pakistani and are always paid out in rupees (never hard currency) to the Pakistan-based beneficiary through a Pakistan-based bank. The hard currency transaction shows up on the books of the State Bank of Pakistan as a foreign currency inflow, however, improving the GOP's balance of payments position. The GOP cashes the dollars and pays rupees to the beneficiary's bank. Under the securitization program, the GOP will borrow hard currency (dollars) from a commercial bank in UAE or Saudi Arabia which has a history of sending remittances to Pakistan. The GOP will give a sovereign guarantee for this loan, but the foreign bank will be repaid by the inflows from its overseas Pakistani clients over the course of five years: essentially, the GOP will take an advance on future remittances. While the loan will show up as an immediate foreign exchange inflow on the GOP's books and will go directly to the Ministry of Finance, over the next five years remittance inflows will be reduced by the amount of the loan. (Remittances will continue to be paid out in rupees to the Pakistan-based beneficiary's bank, and the beneficiary will not be aware of any change in the process.)

Pros and Cons

15. (SBU) The foreign bank will charge the GOP market-based interest rates, as this is a purely commercial transaction. The advantage of such a plan is that the GOP would have immediate access to large sums of money at interest rates lower than what they would have to pay for unsecured sovereign loans. However, these interest rates are still relatively high, especially for five-year maturities, and we

ISLAMABAD 00000782 002 OF 002

have heard that one reason the MoF abandoned a similar plan last fall with the Saudi American Bank was that the interest rate offered (four to five percent above the inter-bank market rate, LIBOR) was too expensive. The other disadvantage is that the GOP is effectively mortgaging future remittances streams for the next five years, and if there is another crisis (e.g., oil prices go up significantly), the GOP will have already tapped this source of external finance.

The GOP must weigh this against whatever advantages accrue from stockpiling the cash now and the political impact of announcing a larger figure in Tokyo.

16. (SBU) A Ministry of Finance (MoF) official in charge of the remittance program told us that the GOP hopes to raise \$1 billion from the UAE and \$2 billion from Saudi Arabia, both to be repaid over five years, with a one-year grace period. They are proposing to use the National Bank of Abu Dhabi and the National Commercial Bank of Jeddah, the largest commercial banks in each country. Since the transactions would be market-based, at the Donors' meeting in Tokyo the GOP would simply ask Saudi Arabia and UAE to have their regulatory agencies facilitate these transactions. The MoF official told us he said he had no idea what the current interest rate might be.

17. (C) Tarin briefed the Ambassador on the idea of securitizing worker remittances more than a week ago, arguing that the proposal would ensure that the Donors' Conference would reach the desired \$4-6 billion pledge target and would, therefore, be perceived as a success. Nevertheless, the plan is controversial within GOP financial circles. The MoF official told us that he opposed the GOP plan because Pakistan's financial situation has stabilized, in his opinion, and there have been large inflows of foreign assistance recently. Therefore, there is no urgent need for these funds at this time. Moreover, he expects Pakistan's credit rating to improve soon (from CCC to B), enabling it to borrow on an unsecured basis on better terms. The IMF Resident Representative (protect) told us that, while he did not oppose the plan, he did not see the pressing need for this, and thought Pakistan should wait until after the Donors' Conference before pursuing it. We expect, however, that the GOP will push ahead with the plan contingent on SAG and UAEG willingness to cooperate.

PATTERSON